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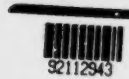

Form 10-Q

18

(Mark One)

X Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

I92-2237

For the quarterly period ended January 31, 1992 or

- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from ____ to ____

Commission File Number: 0-5348

PROCESSED BY
APR 08 1992

OZITE CORPORATION
(Exact name of Registrant as specified in its charter)

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DELAWARE
(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

L30

1755 Butterfield Road, Libertyville, Illinois 60048
(Address of principal executive office)

Registrant's telephone number, including area code: (708) 362-8210

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes X No ____

As of March 23, 1992 there were 5,373,574 shares of Common Stock, $.25 par value outstanding.

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OZITE CORPORATION AND SUBSIDIARIES

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Part I. Financial Information

Item 1. Financial Statements:

OZITE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except share data)

A S S E T S	January 31, 1992 (Unaudited)	July 31, 1991
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,711	$ 6,132
Accounts receivable, less allowance of $2,757 and $2,611 respectively	25,426	26,941
Inventories	33,493	18,800
Federal and state income taxes receivable	1,070	3,145
Prepaid expenses and other current assets	1,072	1,444
TOTAL CURRENT ASSETS	62,772	56,462
PROPERTY, PLANT AND EQUIPMENT, net	40,190	39,081
EXCESS COST OF INVESTMENT OVER NET ASSETS ACQUIRED	48,061	48,743
INVESTMENT IN AFFILIATES, net of deferred gain of $1,321 and $2,386 respectively	11,479	11,479
OTHER ASSETS	2,399	2,782
NOTES AND INTEREST RECEIVABLE FROM OFFICERS	1,012	1,035
TOTAL ASSETS	$165,913	$159,582

See notes to consolidated financial statements.

Part I. Financial Information

Item 1. Financial Statements:

OZITE CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except share data)

LIABILITIES AND STOCKHOLDERS' DEFICIT	January 31, 1992 (Unaudited)	July 31, 1991
CURRENT LIABILITIES:		
Notes payable - related parties	$ 7,981	$ 9,070
Notes Payable	6,369	6,579
Revolving credit facility	18,750	7,000
Accounts payable	12,940	13,472
Other current liabilities	13,448	14,629
Accrued interest	2,693	2,662
Current portion of long-term debt	29,383	29,346
TOTAL CURRENT LIABILITIES	91,564	82,758
LONG-TERM DEBT	87,097	87,021
DEFERRED INCOME TAXES	671	638
OTHER LONG-TERM LIABILITIES	199	136
TOTAL LIABILITIES	179,531	170,553
STOCKHOLDERS' DEFICIT:		
Preferred Stock, Class A	560	560
Preferred Stock, Class B	119	119
Common stock, $.25 par value; 12,000,000 shares authorized; issued and outstanding, 5,403,416	1,351	1,351
Additional paid-in capital	27,719	27,719
Accumulated deficit	(44,348)	(41,048)
Less Treasury Stock-29,842 shares at cost	(90)	(90)
Cumulative foreign currency translation adjustment	1,156	503
Accumulated excess pension benefit obligation	(85)	(85)
TOTAL STOCKHOLDERS' DEFICIT	(13,618)	(10,971)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$165,913	$159,582

See notes to consolidated financial statements

OZITE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands except per share data)

	Six Months Ended January 31,		Three Months Ended January 31,	
	1992	1991	1992	1991
	(Unaudited)		(Unaudited)	
Net sales	$ 66,265	$ 67,469	$ 35,413	$ 37,607
Cost and Expenses:				
Cost of goods sold	48,417	50,624	26,109	28,335
Selling, general and administrative	12,949	12,855	6,681	6,920
	61,366	63,479	32,790	35,255
Operating income	4,899	3,990	2,623	2,352
Other income/(expense):				
Interest expense, net of amortization of deferred financing costs	(8,896)	(9,488)	(4,557)	(5,001)
Other, net	21	(51)	(14)	(59)
	(8,875)	(9,539)	(4,571)	(5,060)
Loss from continuing operations before tax benefit	(3,976)	(5,549)	(1,948)	(2,708)
Income tax benefit	(676)	(623)	(295)	(197)
Loss from continuing operations	(3,300)	(4,926)	(1,653)	(2,511)
Discontinued operations:				
Loss on sale, net taxes benefit	-	(2,541)	-	(2,541)
Income/(Loss) from operations, net of taxes	-	68	-	50
Loss before extraordinary item	(3,300)	(7,399)	(1,653)	(5,002)
Extraordinary item:				
Income related to extinguishment of debt, net of income taxes of $312	-	605	-	-
NET LOSS	$(3,300)	$(6,794)	$(1,653)	$(5,002)
DIVIDENDS APPLICABLE TO PREFERRED STOCK	(2,038)	(1,771)	(1,019)	(1,019)
NET LOSS APPLICABLE TO COMMON SHARES	$(5,388)	$(8,565)	$(2,672)	$(6,021)
INCOME (LOSS) PER COMMON AND COMMON EQUIVALENT SHARE:				
Continuing Operations	$ (.61)	$ (.91)	$ (.31)	$ (.47)
Discontinued Operations	-	(.46)	-	(.46)
Extraordinary Items	-	.11	-	-
NET INCOME (LOSS)	$ (.61)	$ (1.26)	$ (.31)	$ (.93)
WEIGHTED AVERAGE SHARES OUTSTANDING	5,373,574	5,373,574	5,373,574	5,373,574

See notes to consolidated financial statements

OZITE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Six Months Ended January 31,	
	1992	1991
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (3,300)	$ (6,794)
Adjustments to reconcile net loss to net cash used by operating activities:		
Amortization	909	1,255
Depreciation	2,424	2,297
Provision for losses on accounts receivable	146	63
Loss on sale of discontinued operation	-	3,022
Gain on sale of fixed assets	(21)	(17)
Gain on repurchase of long-term debt	-	(917)
Change in assets and liabilities, net of effects from purchase and sales of businesses:		
(Increase)/decrease in assets:		
Accounts receivable	1,369	(1,258)
Inventory	(14,693)	(15,772)
Prepaid expenses and other current assets	372	527
Federal and state income taxes receivable	2,075	-
Notes and interest receivable from officers	23	31
Other assets	269	153
Increase/(decrease) in liabilities:		
Accounts payable, other current liabilities and accrued interest	(1,682)	(2,499)
Deferred income taxes	33	36
Other long-term liabilities	63	-
Foreign currency translation adjustment	585	530
Net cash used in operating activities	(11,428)	(19,343)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures, net	(3,475)	(1,443)
Proceeds from sale of Ansa Bottle Company	-	1,350
Proceeds from sale of property	31	125
Net cash (used in) provided by investing activities	$ (3,444)	$ 32

See notes to consolidated financial statements

(Continued)

OZITE CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Continued)

	Six Months Ended January 31,	
	1992	1991
	(Unaudited)	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings under line-of-credit agreement	$ 11,750	$ 16,610
Payments for repurchase of Senior Subordinated Notes	-	(3,095)
Repurchase of common stock of subsidiary	-	(200)
Payments from other borrowings	(1,299)	(1,266)
Net cash provided by financing activities	10,451	12,049
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,421)	(7,262)
CASH AND CASH EQUIVALENTS, beginning of the period	6,132	11,338
CASH AND CASH EQUIVALENTS, end of the period	$ 1,711	$ 4,076
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 8,079	$ 8,779
Income taxes	$ 122	$ 2,013

See notes to consolidated financial statements

OZITE CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JANUARY 31, 1992 AND 1991

1. BASIS OF PRESENTATION AND GOING CONCERN CONSIDERATIONS

A. Basis of Presentation

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business. There are factors discussed below which indicate that both Ozite Corporation ("Ozite" or the "Company") and its wholly-owned subsidiary, PST Holdings, Inc. ("PST Holdings" or "Holdings") may be unable to continue as going concerns. The effect of the uncertainties discussed below as to the ability of Ozite and PST Holdings, Inc. to continue as going concerns on the recoverability of their assets and the amount of their liabilities is not presently known. Accordingly, the accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

The Company has significant cash flow problems both at the corporate parent level of Ozite ("Ozite Parent") and its wholly-owned subsidiary, PST Holdings. Ozite Parent has a deficiency in assets and has significant overdue liabilities - principally to private placement investors and related parties. PST Holdings is current with respect to its liabilities; however, principal payments on senior secured notes of $29,406,000 are due in June 1992.

The assets and liabilities, results of operations and cash flows included in the accompanying consolidated financial statements are principally attributable to PST Holdings, the Company's wholly-owned subsidiary. In addition, there are certain restrictions that exist as set forth in the bond indenture agreements of PST Holdings, which limit the availability of its retained earnings or net income for dividend purposes. In addition, the credit facility between a bank and PST Holdings' subsidiary, Plastic Specialties & Technologies, Inc.("PST"), prohibits the upstreaming of funds except upon the consent of such bank. As such, Ozite Parent cannot rely solely upon PST Holdings to fund its operations or resolve its financing problems.

The Company has taken steps and developed plans to attempt to restructure the Ozite liabilities and is pursuing various alternatives available to generate cash for payment of amounts due bondholders by PST Holdings.

B. Ozite Parent Only - Going Concern Considerations

Set forth below is a discussion of the steps taken by Ozite Parent (excluding PST Holdings) and the proposal it is preparing to implement in an attempt to resolve its financial difficulties.

Effective as of February 28, 1992, Ozite Parent transferred all of its inventory, equipment, accounts receivable, prepaid expenses and its rights under the sublease of its office/manufacturing facility in Libertyville, Illinois to a newly-formed subsidiary, Ozite Manufacturing Co. ("Ozite Co."), subject to the assumption by Ozite Co. of certain of the trade payables of Ozite Parent, in exchange for all of its capital stock (1,000 shares of common stock). Effective as of February 29, 1992, Ozite Parent sold all of the Ozite Co. stock to PST for a selling price consisting of $2,000,000 payable in cash and 3,750 shares of Series A preferred stock of ARTRA GROUP Incorporated with an appraised value of $940,000. Of the cash proceeds received from the sale of Ozite Co. stock, $1,930,000 were paid to Vader Group Inc. ("Vader") on behalf of Peter R. Harvey, a director of Ozite, in payment of a promissory note of Ozite payable to Mr. Harvey which was pledged to Vader to secure certain obligations of both Mr. Harvey and Dalen Trading Co. (a subsidiary of Ozite) to Vader. See Note 4 for a description of the Series A preferred stock.

On December 26, 1991, Ozite Parent entered into an agreement with Peter R. Harvey, and Bagcraft Corporation of America ("Bagcraft"), reducing notes payable - related parties by $1,089,000. This transaction was originated because Bagcraft was indebted to Ozite, which was indebted to Peter R. Harvey, who was in turn indebted to Bagcraft. In a simultaneous non-cash transactions, a series of credits of $1,089,000 were made against Bagcraft's obligation to Ozite, Ozite's obligation to Mr. Harvey, and Mr. Harvey's obligation to Bagcraft. Bagcraft's $1,089,000 obligation to Ozite was for accrued tax liabilities under a tax sharing agreement owed to Sage Group, Inc. ("Sage"), formerly the parent of Bagcraft, prior to Sage's disposition of Bagcraft and merger into Ozite.

Ozite Parent is presently seeking to pay and/or settle its remaining indebtedness to noteholders and certain other creditors, principally by the issuance of equity securities in exchange for the release of indebtedness. Settlement proposals have not, as of the date hereof, been presented to such noteholders and other creditors and no assurance can be given that any such proposals will be accepted. Management of Ozite Parent does not believe that, generally, it is responsible for the obligations of its subsidiary, Dalen Trading Company ("Dalen"), not assumed by Ozite Parent. In addition, Ozite Parent intends to contest vigorously in court the counterclaims of the former owner of Dalen and its subsidiary, Silk Plants, Etc. Franchise Systems, Inc., in the litigation between Ozite Parent and such person which is pending.

Although the possibility exists that Ozite Parent's creditors could force Ozite into bankruptcy, management believes that the Ozite Parent can continue as a going concern for the foreseeable future because they believe that there is recognition by the creditors that a debt restructuring is to their advantage. In addition, it is anticipated that limited cash dividends can be paid by PST Holdings to Ozite Parent in the event cash is needed to satisfy certain creditors.

C. FST Holdings - Going Concern Considerations

PST Holdings has significant cash requirements in fiscal 1992, consisting of principal payments of $29,406,000 on its Senior Secured Notes and the required repurchase of warrants to purchase its common stock.

The Company does not expect that cash flows from operations will be sufficient to meet the cash requirements of Holdings in fiscal 1992. Accordingly, the Company has identified and is currently exploring various alternatives to generate sufficient cash funds to satisfy the cash requirements of Holdings in fiscal 1992. The alternatives currently under consideration include a sale and leaseback of one of its manufacturing facilities, an infusion of additional capital, revising its line of credit and refinancing of the Senior Secured and Senior Subordinated Notes. Subsequent to January 31, 1992, the Company signed a non-binding letter of intent for the sale and leaseback of the manufacturing facility.

Barring the occurrence of certain significant events, including an initial public offering of Holdings or PST, or in the event of default under the Senior Secured or Senior Subordinated Notes, Holdings will be required to offer to repurchase outstanding warrants after June 1, 1992, in accordance with the Warrant Agreement and at a market price determined by an independent appraisal.

Management is confident that the various alternatives available to the Company will generate sufficient funds to satisfy its cash requirements in fiscal 1992. However, there is no assurance that the above plans can be achieved.

2. INTERIM FINANCIAL INFORMATION

The unaudited consolidated balance sheet as of January 31, 1992, the unaudited consolidated statements of operations for the three and six month periods ended January 31, 1992 and 1991, and the unaudited consolidated statements of cash flows for the six months ended January 31, 1992 and 1991 have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (which include only normal recurring accruals) necessary to present fairly the financial position, results of operations and changes in cash flows of the financial statements presented have been included.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The attached financial statements should be read in connection with the consolidated financial statements and notes thereto included in the Company's 1991 Annual Report on Form 10K for the year ended July 31, 1991.

3. MERGER WITH SAGE GROUP, INC.

On August 24, 1990, Sage Group, Inc. was merged into the Company. Sage's subsidiary, PST Holdings, Inc. became a subsidiary of Ozite. The merger was accounted for as a combination of entities under common control, similar to that of a pooling of interests. Effective upon the merger, the fiscal year of the Company was changed to July 31.

4. INVESTMENTS IN AFFILIATES AND RELATED PARTY TRANSACTIONS

Investments in affiliates include a $5,000,000 subordinated note bearing interest at a rate of 13-1/2% per annum and 50,000 shares of 13-1/2% cumulative redeemable preferred stock with a face value of $5,000,000, in an affiliated company, Bagcraft, a wholly-owned subsidiary of Artra. The subordinated note is due and the preferred stock is mandatorily redeemable on June 1, 1997. The Company last received an interest payment on the subordinated note on June 1, 1988. The Company has reserved all interest accrued subsequent to June 1, 1988 and has not received or recorded cumulative preferred dividends due to cash payment restrictions imposed by Bagcraft's secured lender. As of January 31, 1992, the Company has reserved $2,475,000 of interest in arrears and has not recorded dividends of $3,150,000 related to these investments.

During 1991, Artra engaged an investment banking firm to propose various alternatives which would allow Artra to maximize the value of its investment in Bagcraft. Several alternatives are under consideration, each of which are based on certain operating assumptions of which the outcomes is not readily determinable. Accordingly, the Company is not in a position to determine when or if the various alternatives available to Artra will be acted upon. However, based upon the alternatives available to Artra at this time, the Company believes that there has been no diminution in the carrying value of its investment in Bagcraft.

Prior to March 3, 1990, Bagcraft was a wholly-owned subsidiary of Sage. Effective March 3, 1990, Sage sold Bagcraft to the affiliated company, Artra. As consideration, Sage obtained a contractual right to receive, subject to Artra shareholder approval, 772,000 shares of common stock (the "Common Shares") and 3,750 share of $1,000 par value junior convertible 6% cumulative payment-in-kind redeemable Series A preferred stock (the "Preferred Shares") of Artra.

On December 19, 1990, the date Artra shareholders approved the issuance of the Common and Preferred Shares to the Company, the NYSE closing price of the Artra common stock was $5.75 per share or a total market value of $4,439,000 for the Common Shares. The discounted value of the Preferred Shares on December 29, 1990 was $1,012,000. On March 3, 1990, the net book value of Bagcraft was $1,479,000 and, accordingly, the sale of Bagcraft resulted in a gain to the Company of $3,972,000. Such gain has been deferred in the accompanying consolidated financial statements as the Common and Preferred Shares are not freely transferable. As described in Note 1.B, the Preferred Shares were re-delivered to Ozite as partial consideration for the sale by Ozite of all of the stock of Ozite Co. to PST.

The investment in Common Shares, which represents approximately 19% of the outstanding common stock of Artra, is accounted for under the equity method of accounting as the Company, through its major shareholders and officers, exercises significant influence in the policy decisions of Artra. At December 19, 1990 the excess of the carrying value of the Common Shares over the underlying stockholders' deficit of Artra amounted to $5,218,000 and is being amortized over a period of five years. The Company's share of the net losses of Artra, including amortization, of the excess carrying amount, totalled $1,065,000 for the six months ended January 31, 1992 and $1,586,000 for the year ended July 31, 1991. Income or losses recorded by Artra after September 30, 1991 were not recorded by the Company but will be upon the receipt of Artra's 10-K for the year ended December 31, 1991. The Company had not received or recorded dividends related to Artra preferred stock for all periods presented. Such amount will be recorded as a equal reduction of the carrying value of the Common Shares and the deferred gain.

5. LONG-TERM DEBT

The Company's long-term debt originally consisted of $125,000,000 13-1/8% Senior Subordinated Notes due June 1, 1997 and $50,000,000 12-3/4% Senior Secured Notes due June 1, 1992. Payment of interest and principal under these obligations is guaranteed by PST. Repurchases together with the reclassification of the $29,383,000 Senior Secured Notes to a current liability reduced PST's long-term debt at January 31, 1992 to $87,097,000.

The indentures impose certain restrictions on, among other matters, the payment of cash dividends, the incurrence of indebtedness by the Company and the redemption of capital stock. Mandatory annual sinking fund payments of $25,000,000 are required to retire 60% of the aggregate principal amount of the Senior Subordinated Notes commencing July 1, 1994.

6. DISCONTINUED OPERATIONS

During December 1990, the Company sold the assets of Ansa Bottle Company ("Ansa") for $1,350,000 cash and the assumption of certain liabilities. This sale resulted in a loss of $2,541,000, net of an income tax benefit of $481,000. For the three and six month periods ended January 31, 1991, Ansa generated income of $50,000 and 68,000, net of income taxes of $28,000 and 37,000 respectively. Ansa was engaged in the assembly and distribution of plastic baby bottles. The disposal resulted in a discontinuance of the plastic baby bottle business.

7. LOSS PER SHARE

The primary loss per share is computed based upon the weighted average number of shares and share equivalents outstanding during the period. The common share equivalents are excluded from the calculation because their effect would be anti-dilutive.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - THREE MONTHS ENDED JANUARY 31, 1992 VS. THREE MONTHS ENDED JANUARY 31, 1991

Net sales for the three months ended January 31, 1992, were $35,413,000 a decrease of $2,194,000 or 5.8% compared to the same period in fiscal 1991. This decrease is primarily attributed to a 16.0% decline in European sales based on a local currency which translated to a $1,271,000 or 21.2% decline when converted into U.S. dollars. Sales from domestic operations for the three months ended January 31, 1992 generally outpaced those from the second quarter of fiscal 1991 in volume with the exception of aftermarket, pool hose and medical tubing sales which lagged considerably.

Cost of goods sold for the second quarter of fiscal 1992 was $26,109,000, or 73.8% of net sales compared to $28,335,000 or 75.3% of net sales for the second quarter of fiscal 1991. This improvement reflects improved manufacturing efficiencies and lower raw material prices, particularly resin.

Selling, general and administrative expenses for the second quarter of fiscal 1992 were $6,681,000, a $239,000 decline when compared to the second quarter of fiscal 1991. As a percentage of sales, these expenses increased from 18.4% for the quarter ended January 31, 1991, to 18.9% for the quarter ended January 31, 1992, as bad debt allowances and other selling expenses, such as salaries and insurance costs rose slightly.

Operating income in the second quarter of fiscal 1992 increased to $2,623,000 from $2,352,000 for the second quarter of fiscal 1991, an 11.6% improvement. As a percentage of sales, operating income improved from 6.3% for the second quarter of fiscal 1991 to 7.4% for the second quarter of fiscal 1992. These results are mainly attributable to improved manufacturing efficiencies and to lower raw material costs and were achieved, despite lower sales volume and a disproportionate increase in selling costs.

Interest expense for the three months ended January 31, 1992 was $4,557,000 as compared to $5,001,000 expensed during the three months ended January 31, 1991. The $444,000 in interest savings is attributed to bond buy backs accomplished in fiscal 1991, to the reduction in bank debt during the same year and from lower interest rates on relatively comparable borrowing under the revolving credit facility.

The benefit from income taxes does not reflect a normal effective tax rate due to tax on foreign earnings and non deductible expenses.

For the quarter ended January 31, 1992, the Company registered a loss from continuing operations of $1,653,000 as compared to a loss from continuing operations of $2,511,000 for the three months ended January 31, 1991. The $858,000 improvement was the result of interest savings, improved manufacturing efficiencies and lower raw material costs. This was achieved despite lower sales volume and a disproportionate increase in selling costs.

Discontinued operations for the three months ended January 31, 1991 includes the loss form the sale of the net assets of ANSA in December 1990, net of taxes and the loss from its operations, net of taxes.

For the second quarter of fiscal 1992, Ozite Corporation and subsidiaries had a net loss of $1,653,000 compared to a $5,002,000 loss for second quarter of fiscal 1991. The difference is due primarily to the fiscal 1991 loss recognized from the sale of ANSA.

RESULTS OF OPERATIONS - SIX MONTHS ENDED JANUARY 31, 1992 VS. SIX MONTHS ENDED JANUARY 31, 1991

Net sales for the six month period ended January 31, 1992 were $66,265,000, a decrease of $1,204,000 or 1.8% as compared to the six month period ended January 31, 1991. This decline is mainly attributable to a 6.6% decline in sales by European operations as computed in local currency which translated to a $1,512,000 shortfall or 13.8% decline in U.S. dollars. Increased volume of PVC compounds and gaskets and certain price increases offset a portion of the foreign sales decline.

Costs of goods sold for the first six months of fiscal 1992 were $48,417,000 or 73.1% of net sales compared to $50,624,000 or 75.0% of net sales for the first six months of fiscal 1991. This improvement reflects improved manufacturing efficiencies and lower raw material costs.

Selling, general and administrative expenses for the six month period ended January 31, 1992 increased $94,000 as compared to the six month period ended January 31, 1991. As a percentage of sales, these expenses rose from 19.1% to 19.5%. This is attributable to increases in the fixed components of selling costs such as salaries and insurance costs, coupled with a decline in sales volume.

Operating income for the first six months of fiscal 1992 was $4,899,000, an increase of $909,900, as compared to the first six months of fiscal 1991. As a percentage of sales, operating income increased from 5.9% to 7.4%. The percentage improvement was the result of improved manufacturing efficiencies and to lower raw material costs and was achieved despite lower sales volume and a disproportionate increase in selling costs.

The decrease in interest expense for the first six months of fiscal 1992 of $592,000 as compared to the same period for fiscal 1991 is attributable to bond buybacks accomplished in fiscal 1991, to the reduction in bank debt during the year and to lower interest rates on relatively comparable borrowing under the revolving credit facility.

The benefit from income taxes does not reflect a normal effective tax rate due to tax on foreign earnings and non-deductible expenses.

For the six months ended January 31, 1992, the company registered a loss from continuing operations of $3,300,000 as compared to a loss from continuing operations of $ 4,926,000 for the six months ended January 31, 1991. The $1,626,000 improvement was the result of interest savings, improved manufacturing efficiencies and lower raw material costs and was achieved despite lower sales volume and a disproportionate increases in selling costs.

Discontinued operations for the first six months of fiscal 1991 included the loss from the sale of the net assets of ANSA in December 1990, net of taxes and the loss from its operations, net of taxes.

During the first six months of fiscal 1991, the Company purchased in the open market $4,000,000 face value of its 12-1/8% Senior Subordinated Notes for $3,098,000 resulting in a gain of $605,000 net of taxes.

For the six month period ended January 31, 1992, Ozite Corporation and subsidiaries had net loss of $3,300,000 compared to a $6,794,000 loss for the same period of fiscal 1991. The difference is due primarily to the fiscal 1991 loss recognized from the sale of ANSA and to interest and cost savings achieved to date during fiscal 1992.

Financial Position, Liquidity, and Capital Resources

Working capital exclusive of the revolving credit facility and the current portion of long term debt, increased $9,291,000 during the first six months of fiscal 1992 ($10,050,000 at July 31, 1991 vs. $19,341,000 at January 31, 1992). Working capital at January 31, 1991 was $28,641,000 representing an increase of $16,620,000 from the July 31, 1990 level of $12,021,000. The largest portion of these increases are the result of seasonal growth in the company's garden hose inventory and accounts receivable during the first half of the fiscal year. Historically, PST funds its working capital requirements from internally generated funds and bank borrowings. The net cash used by operating activities during the first half of fiscal 1992 and 1991 ($11,428,000 and $19,343,000) truly reflect these requirements.

For the first six months of fiscal 1992, $11,428,000 of cash and cash equivalents were used in operating activities, as the $14,693,000 build up in inventory and the $1,682,000 reduction in related payables exceeded funds generated from income tax refunds ($2,075,000) and from trade receivables ($1,369,000). To finance these operating requirements and capital expenditures, the company borrowed an additional $11,750,000 under the revolving credit facility and reduced its cash by $4,421,000. Also, as described in Note 1B of the footnotes, the company decreased its outstanding indebtedness with related parties by $1,089,000.

Operating activities for the first six months of fiscal 1991 required $19,343,000. This was primarily due to a $15,772,000 inventory build up, an increase in trade receivables of $1,258,000, and a $2,499,000 decline in the aggregate total of accounts payables and accrued expenses.

The Company increased its borrowing under its revolving credit facility by $16,610,000 to finance these operating requirements. Capital expenditures, and $3,095,000 related to bond buybacks reduced the company's cash by $7,262,000.

The revolving credit facility allows the company to borrow up to $40,000,000. The commitment on the facility is subject to annual renewal on November 30, 1992. It bears interest on the outstanding balance at bank's base rate plus 1-1/4% prime. Management believe that based on historical seasonal cash requirements, the credit facility will provide the Company with sufficient funds to meet its seasonal working capital needs.

The businesses of the Company are relatively stable and mature and do not generally require significant ongoing additions to plant and equipment. For the six months ended January 31, 1992, capital expenditures for the Company were $3,475,000.

As detailed in Footnote 1 to the financial statements, the Company is undergoing steps to reduce its outstanding debt. Notes payable plus accrued interest of $4,217,000 are past due as of January 31, 1992. Also, its wholly-owned subsidiary, PST Holdings, Inc. has significant cash requirements in fiscal 1992, consisting of $29,406,000 of principal payments on Senior Secured Notes and the repurchase of at least a portion of certain stock warrants.

Part II: Other Information

Item 6. Exhibits and Reports on Form 8-K

Exhibits

None

Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Ozite Corporation
Registrant

Date: 3/23/92

By: Terence K. Brennan
President and Chief
Operating Officer

Date: 3-23-92

By: Melvin R. Miller
Melvin R. Miller
Controller